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Farmer Cooperative Service
U.S. Department of Agriculture

Regional Grain Cooperatives 1962-63

25th Annual Report

By Daniel H. McVey

Distribution of this report is limited to managers and directors of regional grain cooperatives, banks for cooperatives, extension marketing specialists and agricultural economics personnel in State colleges interested in grain marketing.

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Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, produce quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

REGIONAL GRAIN COOPERATIVES
1962-63

By
Daniel H. McVey
Grain Branch
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This report covers the financial condition and operating results of a group of regional grain cooperatives. It is the latest in the annual series of such reports started in 1938 and continued at the request of the cooperatives.

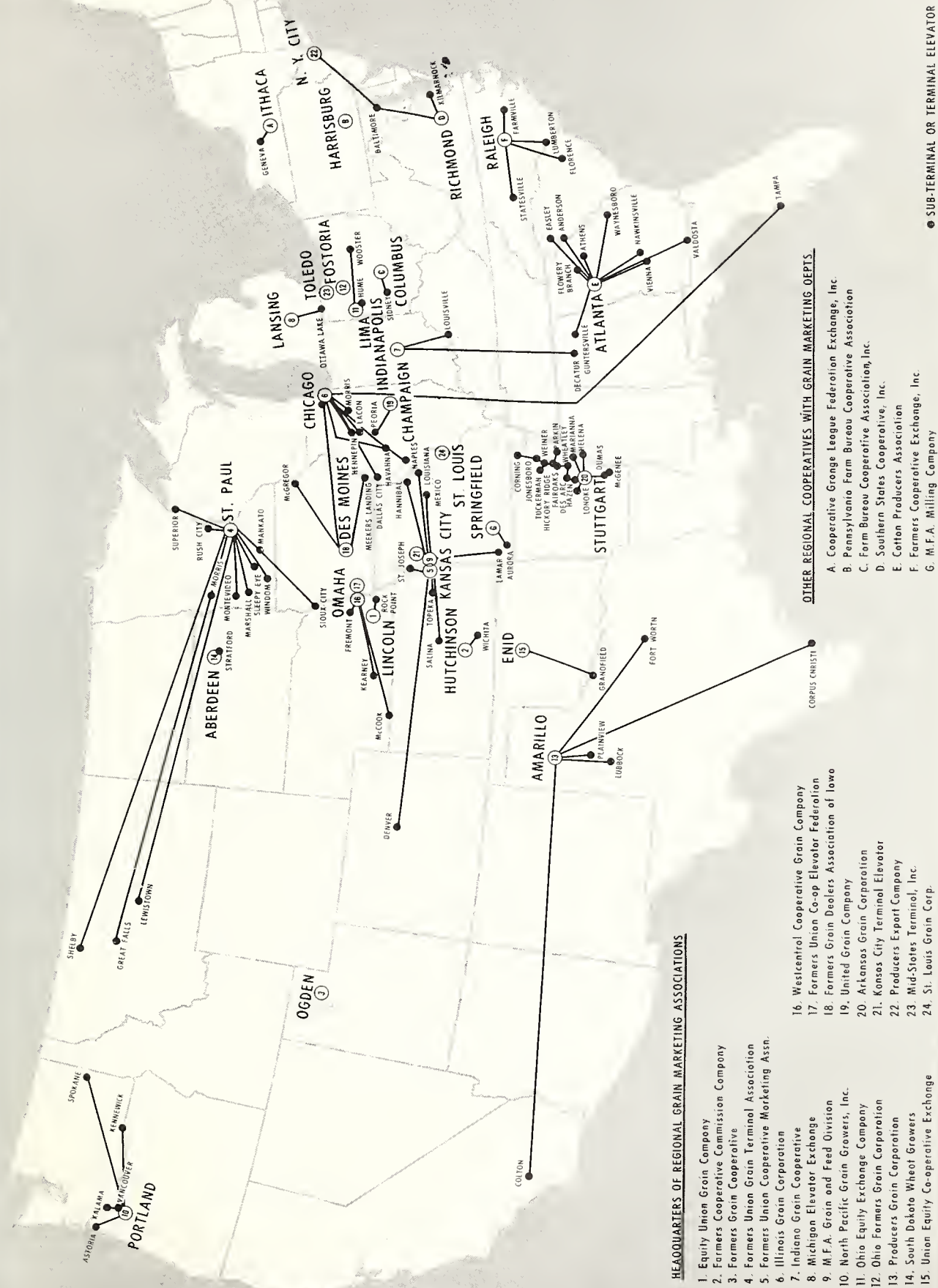
This report contains data for the 1962-63 season and shows some comparisons for the entire period 1938-39 through 1962-63. In addition, it points out some of the more current developments that have taken place since the end of the 1963 fiscal year.

Regional grain cooperatives continue to make every effort to meet the demands of their members by conducting up-to-date grain marketing services at subterminal and terminal markets (figure 1).

They have rapidly expanded and modernized elevator facilities to handle and store current reserves and carryover stocks and to merchandise member associations' grain. Much of the recent activity has been at strategic river or lake points to take advantage of cheaper water transportation and increase market potentials both at home and abroad.

With the increased production of grain and livestock in southern and southeastern States, cooperatives are giving more attention to installing processing and storage facilities in these areas to supply grain for feed and to furnish outlets for their own member production.

Fig. 1-- LOCATION OF REGIONAL GRAIN MARKETING SERVICES AND THEIR SUB-TERMINAL AND TERMINAL ELEVATORS, 1964



Regionals have helped members improve their facilities and conduct more efficient grain marketing operations at the local level. Through the National Federation of Grain Cooperatives, grain research programs, advisory committees, radio and television programs, and other media, managements of the regionals are helping all grain farmers.

For several years, some regionals have cosponsored accounting schools for the local elevator bookkeepers, where students receive valuable training. Several also have conducted management training conferences, directors' schools, and member relations clinics.

Several regionals have installed milling and baking laboratories to learn more about the product they sell for their members and thus encourage farmers to grow the kind of grain that will sell best.

Many of these cooperatives are also working closely with grain improvement associations in developing new varieties so they can advise members on the best types of wheat and other grains to produce. By meeting exact milling specifications and feeding requirements, farmers can expect better returns and more use for their cash grain. Some regionals also pay premiums for approved varieties and protein content.

Some of them are moving into the feed, seed, and farm supply field and others are expanding their services along these lines. Some of the grain regionals have started soybean processing. For example, in 1960, Farmers Union Grain Terminal Association (GTA), St. Paul, Minn., acquired Honeymead Products, Mankato, Minn., the largest single soybean processing plant in the country.

In addition to producing crude oil and meal, this plant has been further processing these products into finished liquid oil and industrial soy flour and grits. It has installed hydrogenation equipment and is processing hardened oil. In 1961, GTA acquired the facilities of the Minnesota Linseed Oil Company, one of the largest flaxseed processors in the country. GTA has also moved rapidly into feed milling and distribution.

Arkansas Grain Corporation, Stuttgart, after 3 years' operation of its new soybean extraction plant, is expanding storage facilities and adding other equipment to further process soybean products. They have under construction a second processing plant and terminal elevator at Helena on the Mississippi River.

Farmers Union Cooperative Marketing Association (CMA), Kansas City, Mo., acquired the facilities of Dannen Mills, St. Joseph, Mo., in the late summer of 1963. These facilities include a modern soybean processing plant, a large terminal elevator on the Missouri River, three feed mills, a line of country elevators, and other facilities.

Missouri Farmers Association, Columbia, has greatly expanded its soybean processing capacity at Mexico with the addition of a new solvent extraction plant and recently completed the installation of equipment to further process soybean oil. Farmers Cooperative Commission Company, Hutchinson, Kans., has installed facilities to process its members' wheat into bulgar.

In another effort to improve the bargaining position of cooperative growers in the market place, 19 regionals joined together in 1958

and organized the Producers Export Company with offices in New York City. Membership has grown to 22 regionals (figure 2). They have exported more than 200 million bushels of grain to some 30 countries around the world.

Several of the regionals, many of them members of Producers Export, have terminal elevators located on water. North Pacific Grain Growers of Portland, Oreg., entered into a lease agreement with the Port Authority of Kalama, Wash., to construct a large, fast-handling port elevator now in operation.

Producers Grain Corporation, Amarillo, Tex., on May 1, 1964, announced the acquisition of the Corpus Christi Port elevator with a capacity of $4\frac{1}{2}$ million bushels.

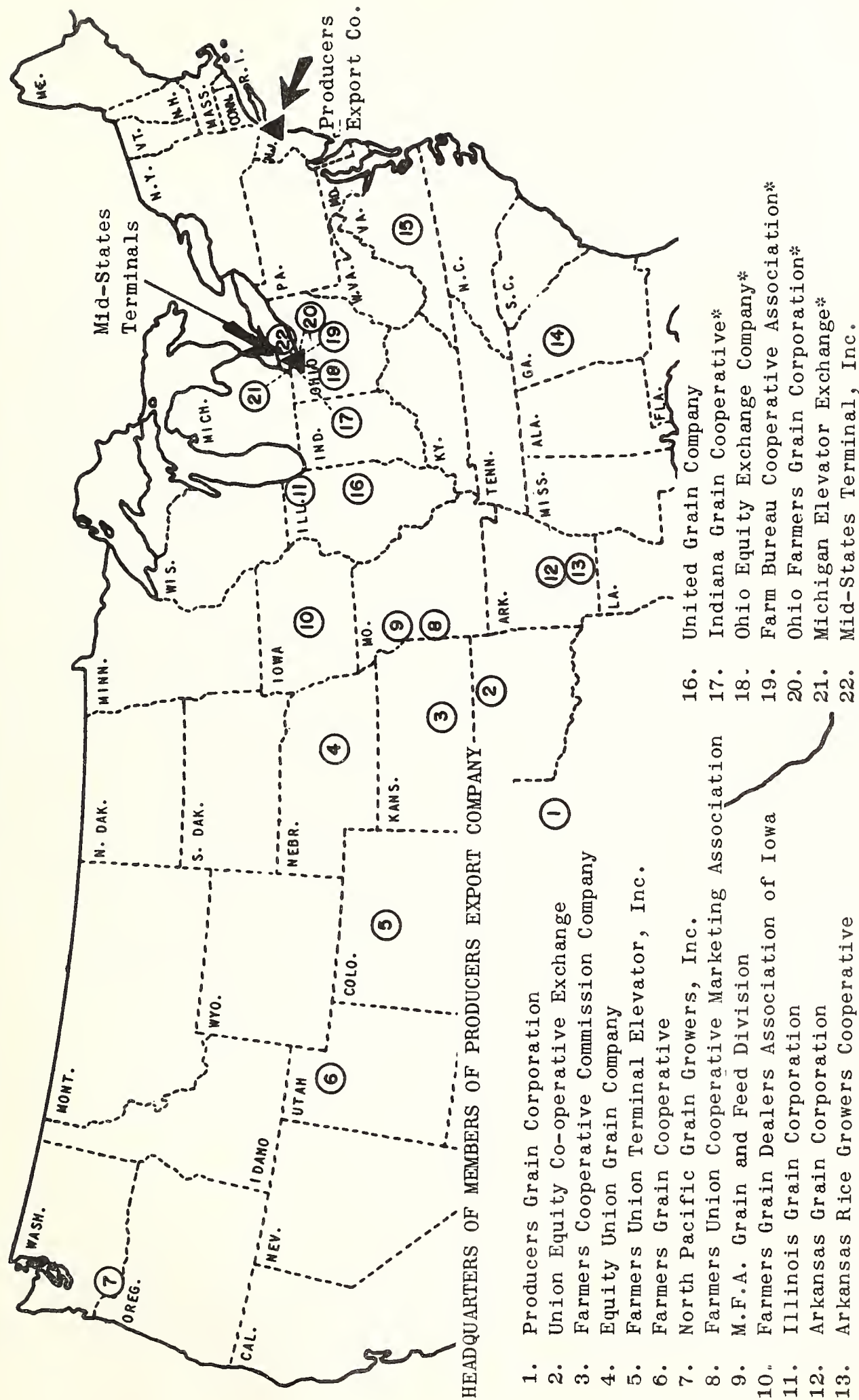
Farmers Union Cooperative Marketing Association, Kansas City, Mo., is operating through its loading facilities on the Missouri River at Kansas City and St. Joseph.

West Central Grain Cooperative, Omaha, Nebr., and Equity Union Grain Cooperative, Lincoln, Nebr., are also operating through their new river houses. West Central recently purchased another barge-loading site on the Missouri River north of Omaha.

The Missouri Farmers Association, Columbia, built a river terminal at Kansas City and acquired one at Hannibal, Mo. Two years ago, Missouri Farmers and Equity Union organized a new cooperative, Kansas City Terminal Elevator, which acquired the M.F.A. terminal and doubled its capacity, and are now operating jointly through it.

Figure 2.

HEADQUARTER LOCATIONS OF MEMBERS OF PRODUCERS EXPORT COMPANY AND MID-STATES TERMINALS



* Also members of Mid-States Terminals

Farmers Grain Dealers Association, Des Moines, Iowa, acquired and enlarged water facilities at Meekers Landing 2 years ago through which they shipped over 6 million bushels of grain last year. They recently bought another site at McGregor and have constructed barge facilities there. They also own a site on the Missouri River in western Iowa.

Michigan Elevator Exchange Division of Michigan Farm Bureau Services since their merger late in 1962, has a 2½ million terminal under construction at Saginaw accessible to water transportation. In the spring of 1964, they merged with Williams Grain Corp. which included flour milling.

In addition, the five regional grain organizations in Ohio, Indiana, and Michigan have organized Mid-States Terminals, Inc., with headquarters at Toledo, Ohio, to take advantage of new markets and cheaper transportation rates on the St. Lawrence Seaway. These members (all of them are also members of Producers Export) purchased a terminal elevator at Toledo, which has been modernized and expanded. For the year just ended, they handled 20 percent of the volume marketed through Toledo.

Another highly significant development in 1963, was the acquisition of a modern terminal at St. Louis with good access to water, rail, and highway transportation. Three of the regionals, Illinois Grain Corporation, Farmers Grain Terminal Association, and Missouri Farmers Association organized a Missouri cooperative, St. Louis Grain Corporation to acquire and operate this facility.

On January 1, 1964, The Farmers Union Terminal Elevator, Denver, Colo., merged with Farmers Union Cooperative Marketing Association,

Kansas City, Mo., the first merger of regional grain cooperatives. The three grain regionals in Ohio recently announced their intention to merge.

Through actions such as these, the bargaining strength of cooperative elevator patrons is increased.

Most of the information in this report concerns the 16 regional grain cooperatives on which we have data beginning with their first year of operation in 1938-39. Fourteen other regionals--seven farm supply organizations and nine grain cooperatives--came into being after that date. A number of the regional farm supply cooperatives have set up grain marketing departments to perform the same function and service as the grain regionals.

Figure 1 shows the location of the 24 regional grain cooperatives in operation in 1964, and their subterminal and terminal elevators, and the 7 other regional cooperatives with grain marketing departments. These regionals operate elevators at 132 market locations. These do not include commission offices where there are no cooperative facilities.

About 40 of these locations are export facilities or handle barge grain and are making significant savings for their members by using water transportation.

The annual reports before 1959 primarily covered data on those 16 associations on which we had records from 1938-39. Since then, the reports have been enlarged to include information on additional associations.

Part I shows the data on the 16 organizations and preserves the annual series. Part II contains information on 27 associations for which

data are available for the last 5 years. The 27 associations include the 16 discussed in Part I.

Part I - 16 Regional Grain Cooperatives

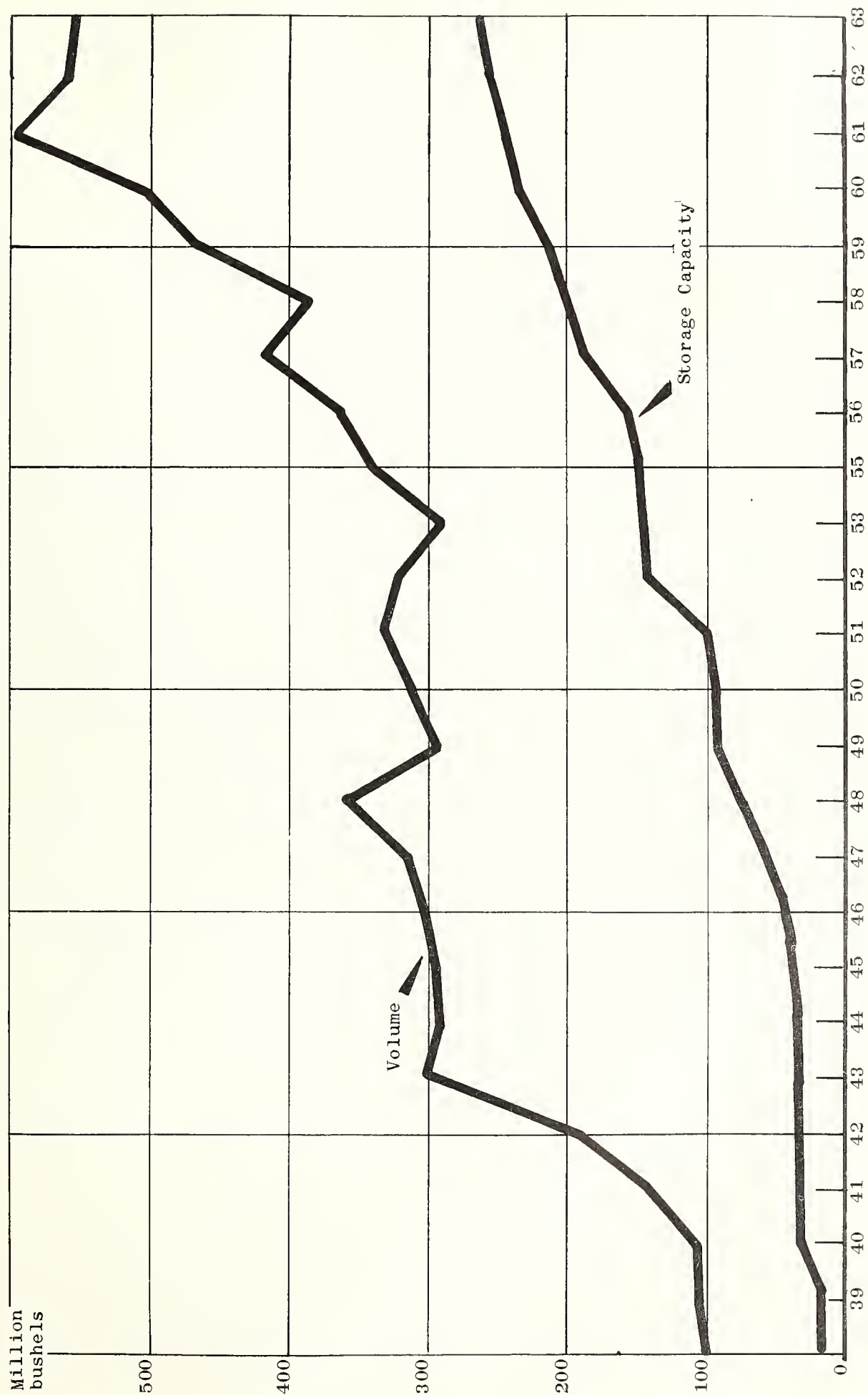
These 16 regional grain cooperatives have greatly expanded their storage capacity over the years, particularly since 1953, to meet the needs of members.

Figure 3 shows this expansion. By harvest time of 1964, the regionals will have nearly 268 million bushels of storage compared with less than 20 million in the early years and 35.5 million bushels at the end of World War II. The greatest expansion occurred in 1954--44 million bushels--but the 28-million bushel expansion in 1958 also stands out. Capacity has considerably more than doubled since 1953. Nearly all the space in use is owned, although some Port Authority elevators are operated on a long-term lease basis.

Since 1944, the combined volume of grain marketed by the 16 regionals has seldom been below 300 million bushels a year, with peaks of more than 360 million bushels in 1949 and for each of the last 7 years (figure 3). In 1962-63, volume was 559 million bushels--less than one-half percent from 1961-62. This is the third consecutive year that volume reached a half-billion bushels or more.

During the 25-year period beginning with 1938-39, these associations handled 8.27 billion bushels of grain. In the last 3 years alone of this period, volume amounted to more than 1.7 billion bushels and 2.7 billion bushels in the last 5 years of the period. This does not take into account quantities of grain handled for the Commodity Credit Corporation.

Figure 3
Combined Volume and Storage Capacity of 16 Regional Grain Cooperatives,
1938-39 to 1962-63



Since regional grain cooperatives began operations, total production of major grains has increased by about 57 percent. The proportion leaving the farm has gone up even faster--in fact $2\frac{1}{2}$ times in the same period. Even so, the regionals have more than kept the pace. In their first 3 years of operation, they accounted for about 6.5 percent of the grain leaving the farm. Currently they account for about 16 percent. The proportion handled by cooperatives would be higher if C.C.C. volume were included.

When taken as a group, these 16 cooperatives showed a net margin for each of the 25 years. Total margins trended upward reaching nearly \$20 million in 1958-59. They have declined somewhat since. They amounted to 14.3 million in 1962-63, or about 10 percent less than 1961-62, and more than 25 percent since the peak in 1958-59 (figure 4). On a bushel basis, the peak was reached in 1957-58 at 4.46 cents but has since declined. In the first few years, the combined annual margin was around \$1 million; for the last 8 years of the period, in excess of \$14 million (table 1).

The net margin in 1961-62 was equal to a return of nearly 15 percent on the book value of fixed assets and to 6 percent on all assets.

In the very early years, the net margin per bushel handled averaged about 1 cent. There was a gradual increase to around 4 cents a bushel in the period 1953-54 to 1959-60. In 1962-63, the margin declined to 2.59 cents a bushel, or 11 percent from the year before, reflecting intense competition, and smaller volumes stored and handled, and reduced storage rates under the Uniform Grain Storage Agreement.

Figure 4

Combined Net Margins of 16 Regional Grain Cooperatives, 1938-39 to 1962-63

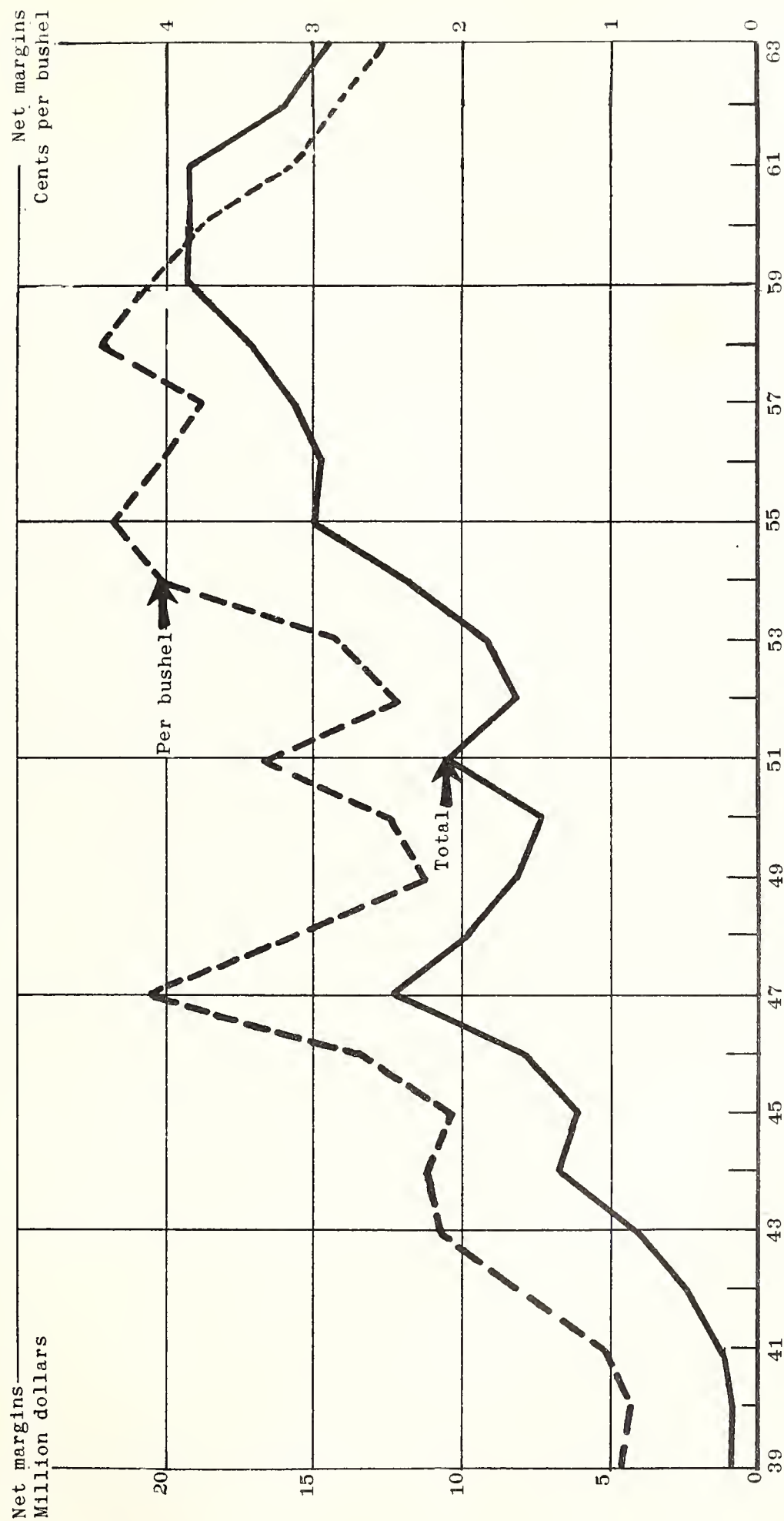


Table 1.--Total grain handled and combined net margins of 16 regional grain cooperatives, 1938-39, 1961-62, and 1962-63

Fiscal year	Volume of grain handled <u>1,000 bushels</u>	Combined net margins <u>\$1,000</u>	Net margins per bushel <u>Cents</u>
1938-39	100,123	\$ 886	0.89
1961-62	561,728	16,063	2.88
1962-63	558,503	14,346	2.57

We can reasonably assume that such margins would not have been realized if handling, merchandising, and storage facilities had not been available (figure 5). Total net margins for the 25-year period were \$256.9 million, with 34 percent of the amount realized in the last 5 years of the period under study. The average margin per bushel for the 25 years was 3.11 cents.

As would be expected from the storage capacity and volume data, the combined balance sheet of these organizations changed greatly over this 25-year period. Current assets in 1939 were \$5.2 million; they showed almost continual annual growth and reached a record \$150 million in 1962, but dropped back to \$128 million in 1963 (figure 6 and table 2). The principal decline was in inventory although it was substantial in other current assets.

The net value of fixed assets was less than \$1 million in 1939 and didn't reach \$10 million until 1947. After 1947 there was a rapid buildup that reached a record \$100.2 million in 1962 but declined slightly to \$98.4 million in 1963. The net increase in the last 5 years under study was about \$32 million. Rapid amortization of a number of facilities has held this value down.

Total assets in 1939 were \$6.6 million. These showed a steady growth, reaching a record \$263 million in 1962. There was a decline to \$244 million in 1963. Five associations had assets in excess of \$16 million each in 1963.

Although large amounts of capital have been used in recent years for expanding facilities, member equities in these 16 regionals continued to rise. In the 25 years from 1938-39 to 1962-63, member

Figure 5

Combined Storage Capacity and Net Margins of 16 Regional Grain Cooperatives,
1938-39 to 1962-63

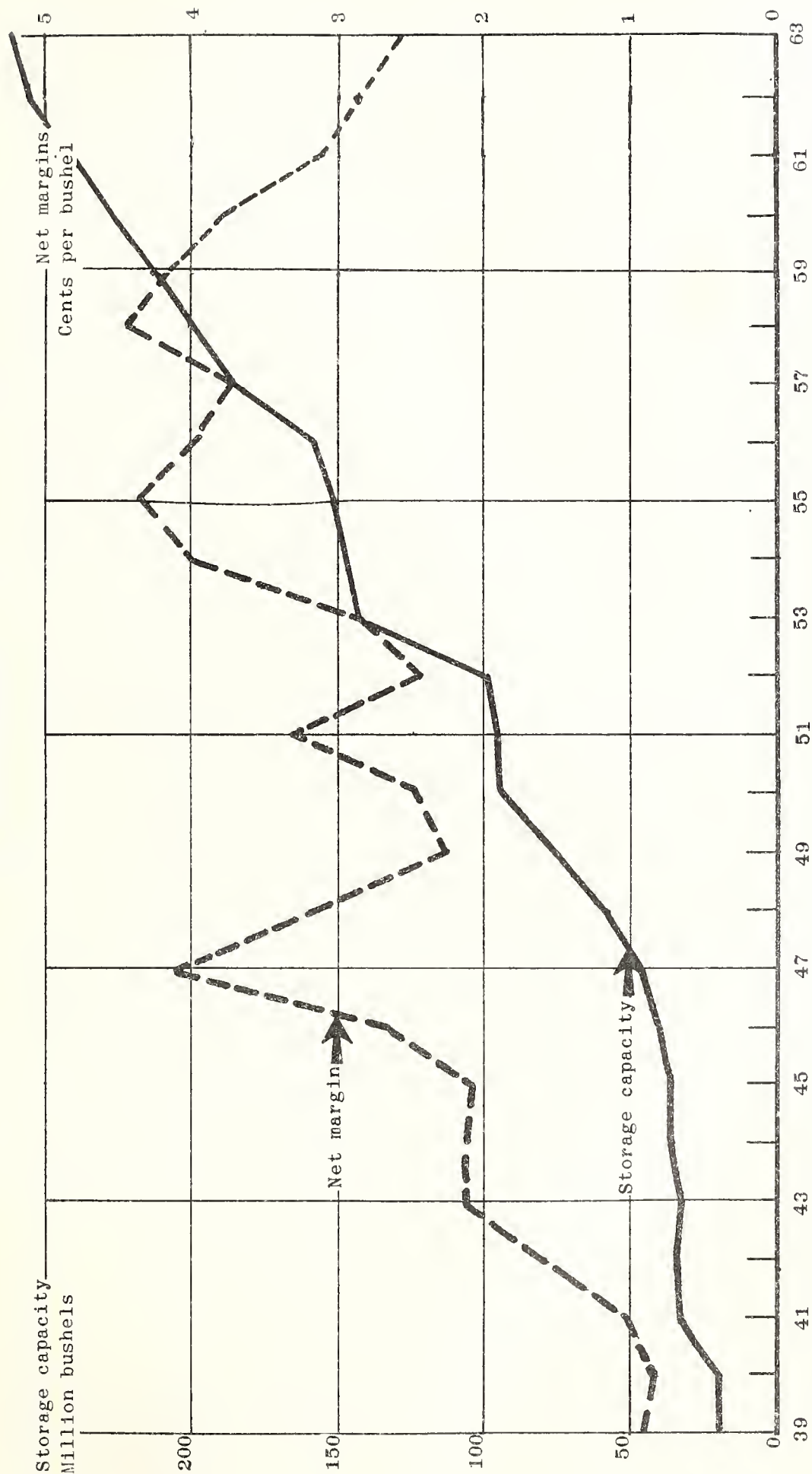


Figure 6

Combined Assets of 16 Regional Grain Cooperatives, 1938-39 to 1962-63

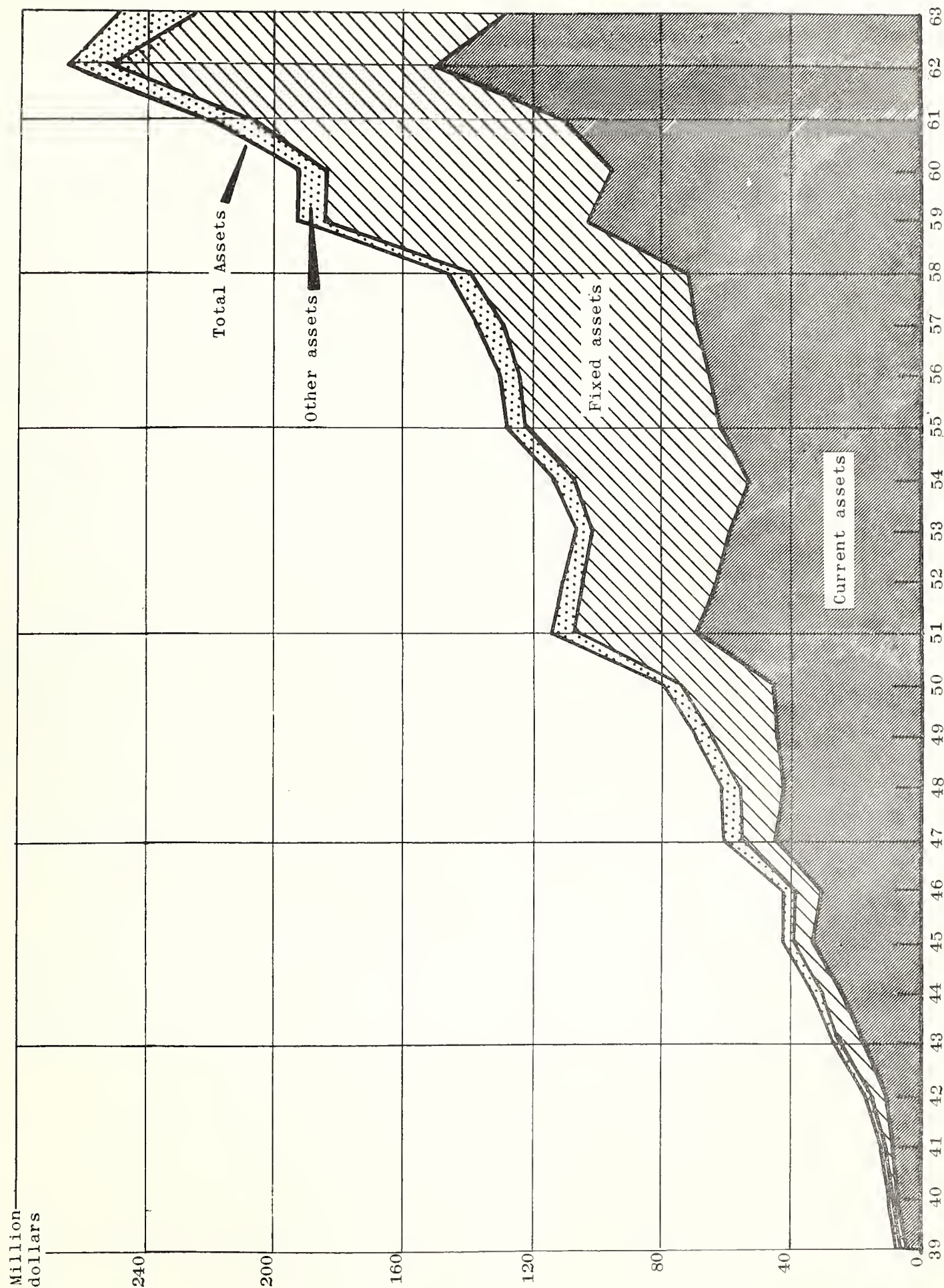


Table 2.--Consolidated balance sheet of 16 regional grain cooperatives at the close of marketing years 1938-39, 1961-62, and 1962-63 1/

Item	:	1938-39	:	1961-62	:	1962-63
	:		:		:	
				\$1,000		
<u>Assets</u>						
Current assets						
Cash	\$	1,160	\$	8,907	\$	14,526
Inventory		1,117		67,899		50,353
Other current assets		<u>2,970</u>		<u>73,004</u>		<u>63,043</u>
Total current assets		5,247		149,810		127,922
Fixed assets (less depreciation reserve)		930		100,182		98,390
Other assets		<u>466</u>		<u>13,081</u>		<u>17,728</u>
Total assets		6,643		263,073		244,040
<u>Liabilities and member equities</u>						
Liabilities						
Current <u>2/</u>		2,443		82,015		55,892
Deferred		<u>1,003</u>		<u>41,995</u>		<u>42,496</u>
Total liabilities		3,446		124,010		98,388
Member equities						
Certified capital		1,555		86,876		94,828
Surplus and reserve		<u>1,642</u>		<u>52,187</u>		<u>50,824</u>
Total member equities		3,197		139,063		145,652
Total liabilities and member equities		6,643		263,073		244,040

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

equities rose from \$3.2 million to \$145.7 million and showed an increase every year (table 2 and figure 7). In the last year, they rose by \$6.6 million, or 4.7 percent, over 1961-62. They increased \$56 million in the last 6 years and at the end of the 1963 fiscal year were equal to 60 percent of the total asset value and were 48 percent greater than the value of fixed assets.

About \$95 million of the equity is in the form of certified capital and nearly \$51 million is in surplus and reserves. This latter category has grown rapidly in recent years and in some organizations is equal to the certified capital.

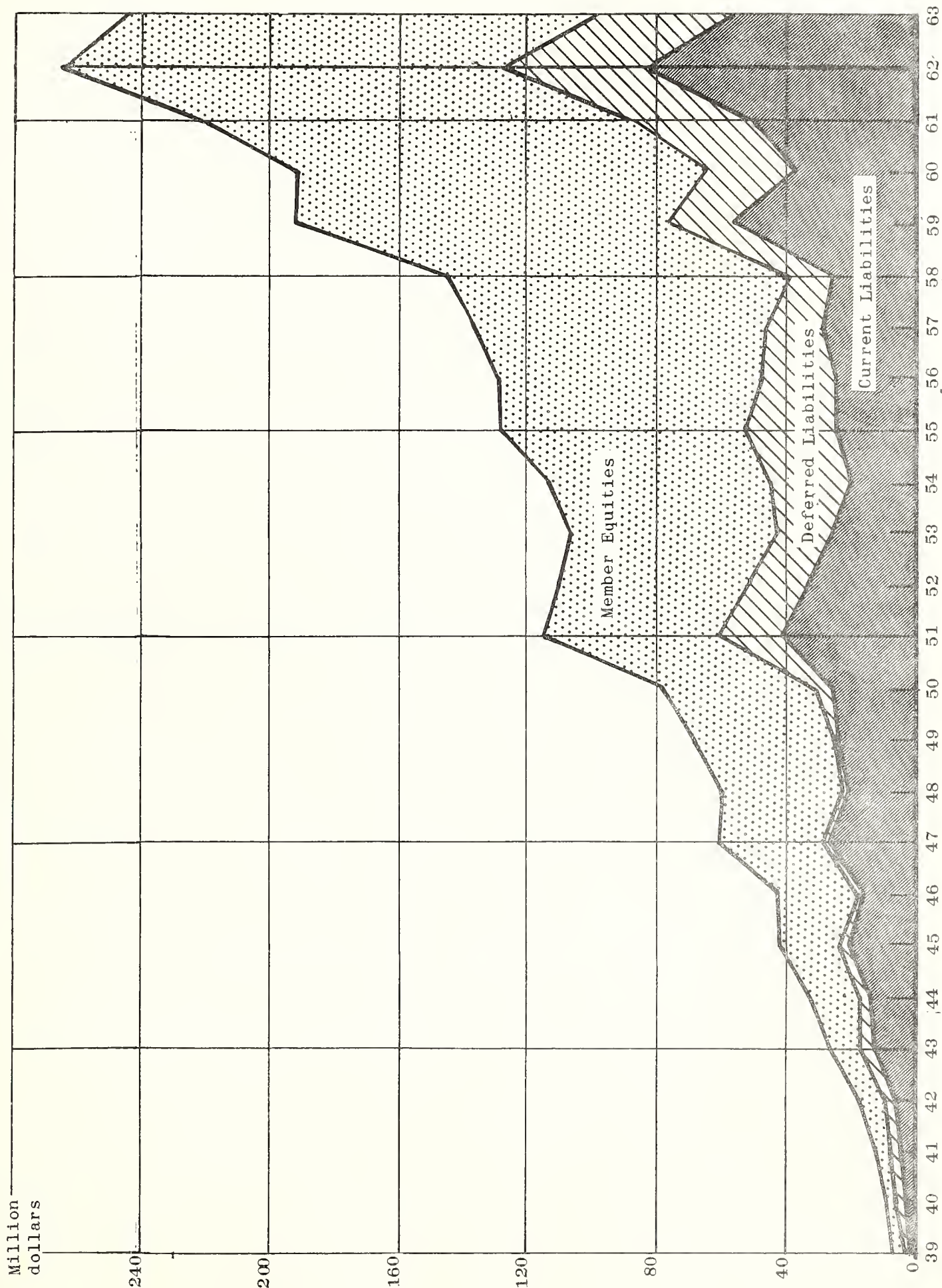
Annual working capital has shown a steady increase from the beginning and amounted to \$72 million in 1963. This may be compared to the \$2.8 million in 1939.

Liabilities declined considerably last year. At \$98.4 million, they were down \$25.6 million from 1961-62. Long-term liabilities have fluctuated considerably over the years but have been higher in recent years due to the accelerated construction program. At the end of 1962-63, they amounted to \$42.5 million compared to \$1 million in 1938-39 (table 2 and figure 7). At the end of 1962-63, deferred liabilities were 43 percent of the book value of fixed assets.

Much of the recent increase in liabilities has been in the current category. They reached more than \$57 million in 1958-59, declined to \$39 million in 1959-60, and increased to \$82 million in 1961-62. They declined sharply in 1962-63 to about \$56 million largely due to inventory and other current asset declines. In 1963, they comprised 57

Figure 7

Combined Liabilities and Member Equities of 16 Regional Grain Cooperatives,
1938-39 to 1962-63



percent of the total liabilities compared to 66 percent in 1962. A portion of these current liabilities were patronage dividend payments and interest on stock which had been declared but not disbursed.

Part II - 27 Regional Grain Cooperatives

As mentioned earlier, several regional grain cooperatives have been organized since 1938, and some regional farm supply cooperatives have added grain marketing departments. Data for 1958-59 through 1962-63 on 11 of these organizations have been combined with the data on the original 16 associations to give a more complete picture of current cooperative regional grain marketing.

These organizations have terminal or subterminal elevators at 68 locations with nearly 78.4 million bushels of storage capacity.

This makes a total of 346 million bushels of storage capacity for the 27 organizations. Thus the capacity per association and per elevator is much greater for the 16 associations than for the 11.

Total assets of the 27 associations in 1962 were more than \$313 million, down about \$8 million from the year before. Inventory and other current asset values were down appreciably but cash increased considerably. Net fixed assets increased from about \$121 million to slightly over \$123 million (table 3 and figure 8).

Liabilities declined by about \$15 million during the year with all the decline in current liabilities. Member equities increased to \$172 million from \$164 million in 1962, or about 5 percent.

Table 3.--Consolidated balance sheet of 27 regional grain cooperatives at the close of marketing years 1958-59 to 1962-63 1/

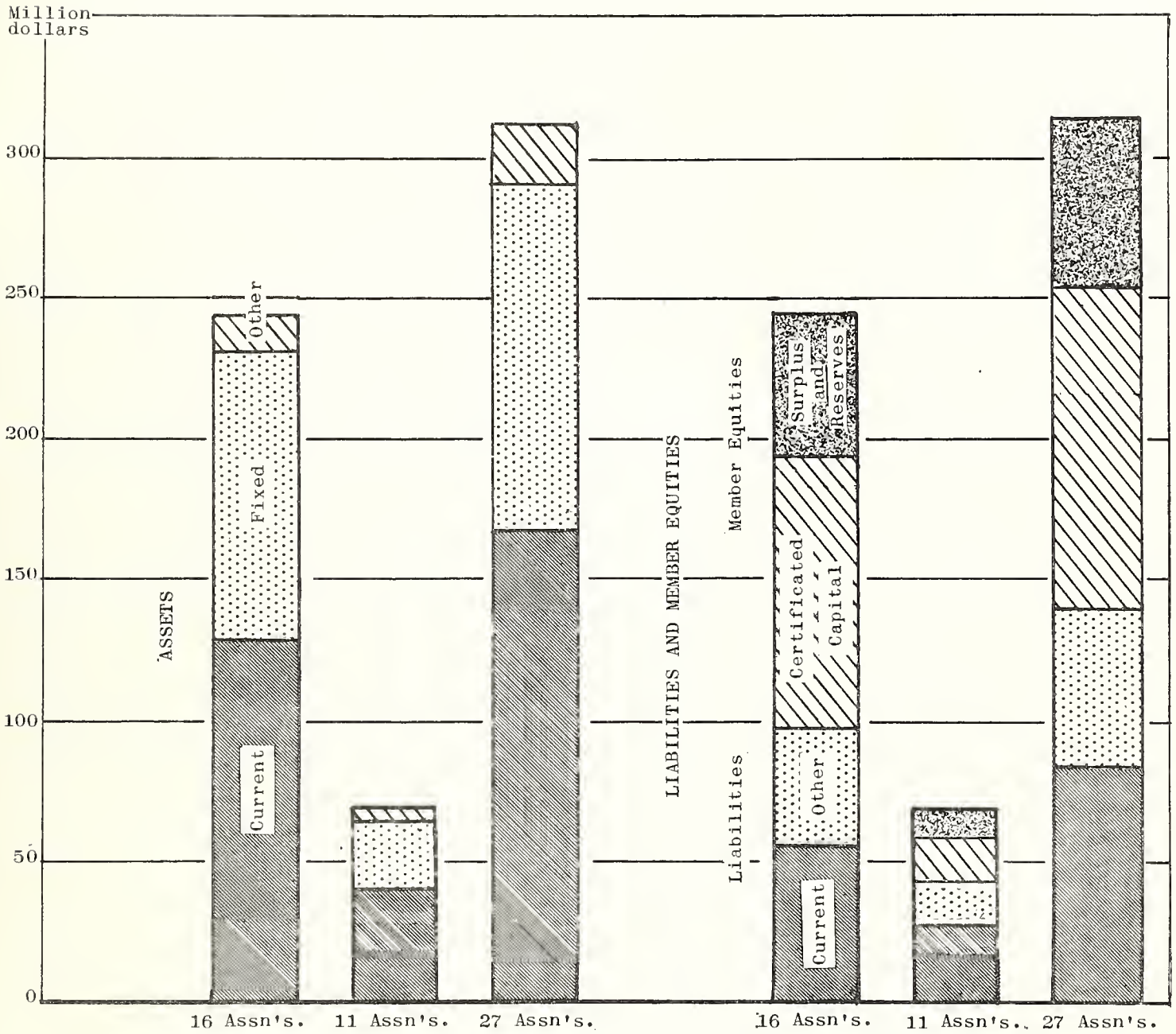
Item	: 1958-59	: 1959-60	: 1960-61	: 1961-62	: 1962-63
			\$1,000		
<u>Assets</u>					
Current assets					
Cash	\$15,240	\$20,197	\$ 9,826	\$10,297	\$18,415
Inventory	53,075	40,053	69,374	92,029	78,437
Other current assets	<u>60,754</u>	<u>53,825</u>	<u>59,526</u>	<u>80,099</u>	<u>71,011</u>
Total current assets	129,069	114,075	138,726	182,425	167,863
Fixed assets (net book value)	97,286	106,659	117,361	126,011	123,327
Other assets	<u>10,094</u>	<u>11,187</u>	<u>16,268</u>	<u>17,169</u>	<u>22,139</u>
Total assets	236,449	231,921	272,355	320,605	313,329
<u>Liabilities and member equities</u>					
Liabilities					
Current <u>2/</u>	71,901	50,260	69,430	101,088	84,403
Deferred	<u>27,389</u>	<u>35,592</u>	<u>48,421</u>	<u>55,213</u>	<u>56,919</u>
Total liabilities	99,290	85,852	117,851	156,301	141,322
Member equities					
Membership capital	90,306	95,150	97,416	103,804	111,329
Surplus and reserves	<u>46,853</u>	<u>50,919</u>	<u>57,088</u>	<u>60,500</u>	<u>60,680</u>
Total member equities	137,159	146,069	154,504	164,304	172,009
Total liabilities and member equities	236,489	231,921	272,355	320,605	313,329

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

Figure 8

Combined Assets, Liabilities and Member Equities
of 27 Regional Grain Cooperatives, 1962-63



The 11 organizations merchandised nearly 155 million bushels of grain in 1962-63, up more than 9 percent from the volume in 1961-62. Volume for the 27 associations in 1962-63 was 713 million bushels compared to 704 million in 1961-62 (figure 9).

Again this year, we obtained volume data by kind of grain. The 27 regional cooperatives handled almost 693.5 million bushels of the 8 major grains and oilseeds (wheat, corn, oats, barley, soybeans, sorghum, flax, and rye).

Only one organization handled all eight of these grains but five others handled as many as seven grains. Four organizations handled fewer than five grains. This 694 million bushels is equal to 16.2 percent of the total off-farm sales of these grains from 1962 crop (figure 10). These cooperatives handled 37.7 percent of the flax, 27.1 percent of the wheat, nearly 20 percent of the soybeans, and so on down to a little more than 5 percent of the sorghum.

Some organizations handled other kinds of grain in addition to those enumerated above. Their volume of 20 million bushels was composed of beans, peas, rice, millet, spelt, and buckwheat. This makes a total volume of more than 713 million bushels.

Wheat was, by far, the largest volume grain handled by these cooperatives--more than 39 percent of the total (figure 11). Corn was next at 25 percent and soybean nearly 18 percent. There was considerable difference in kind of grain handled by the original 16 associations and the 11 that were organized later. Location with respect to producing areas is important here.

Figure 9
 Combined Volume, Storage Capacity, and Net Margins of 27
 Regional Grain Cooperatives, 1960-61, 1961-62, and 1962-63

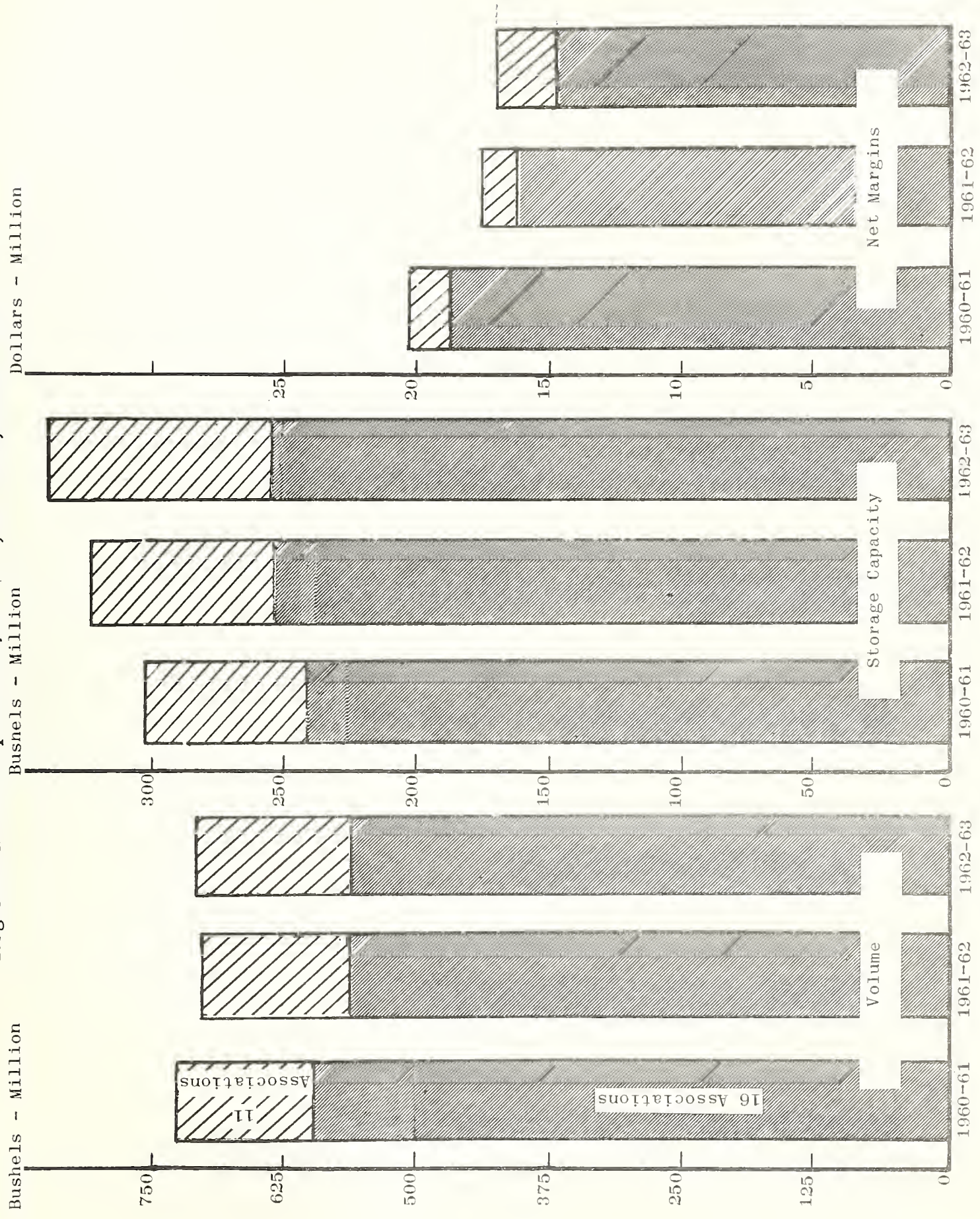
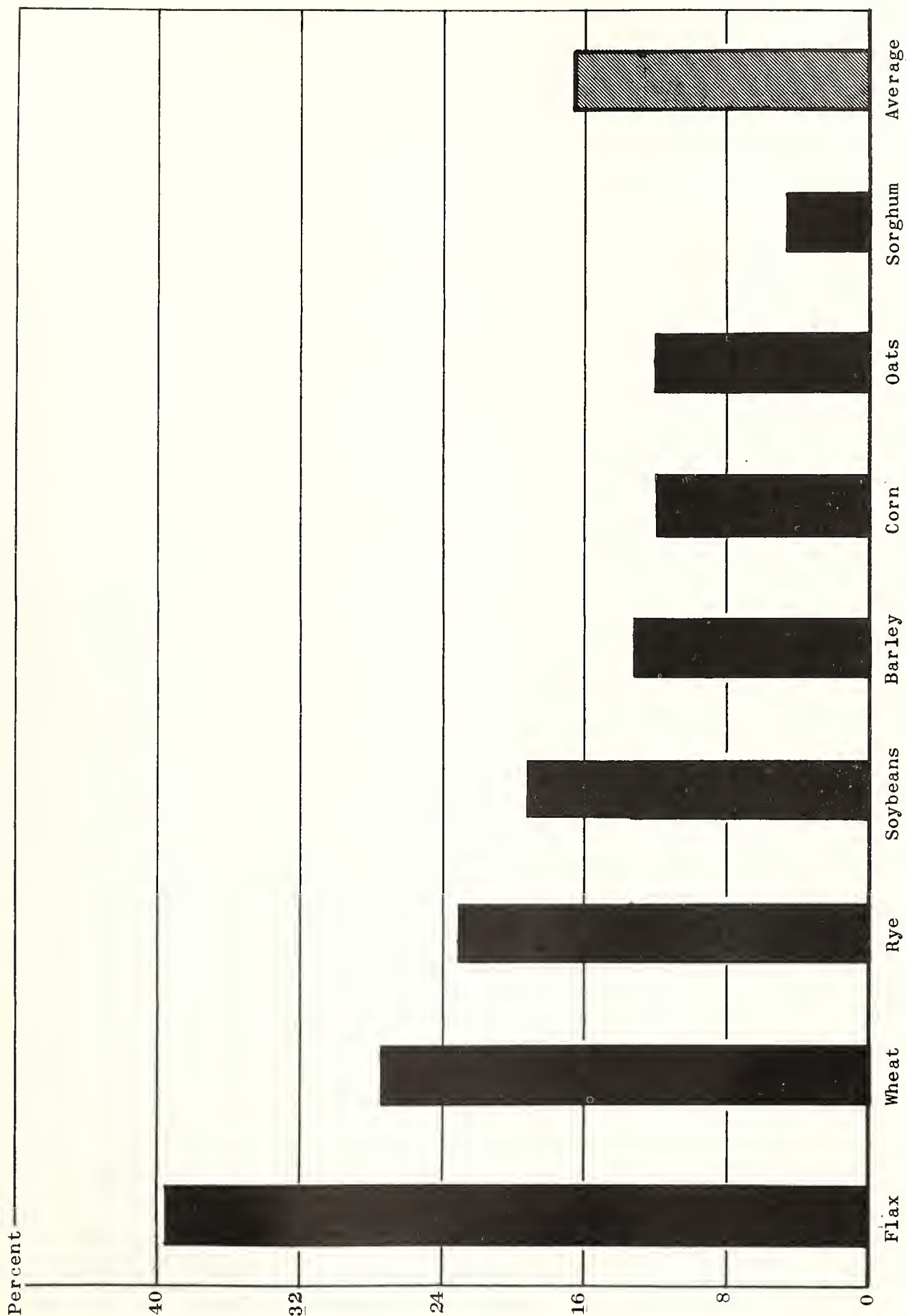


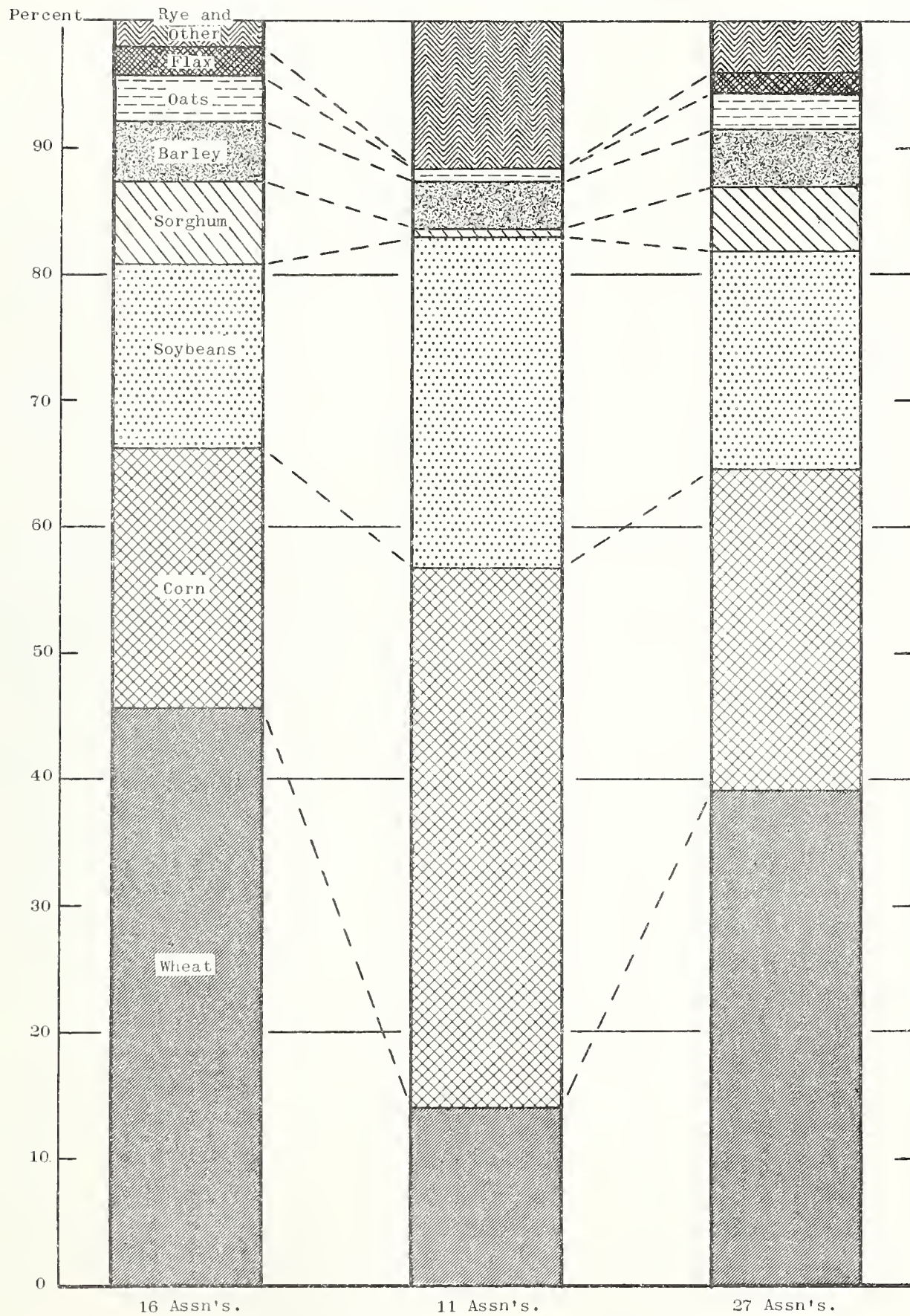
Figure 10

Proportion of Total of Off-Farm Grain Sales¹ Handled by
27 Regional Grain Cooperatives, 1962-63 -- Percent by Kind of Grain



¹/ Source: Statistical Reporting Service, Crop Reporting Board, U.S.D.A., Cr. Pr. 1 (63)

Figure 11
Kind of Grain as a Percent of Total Volume Handled by
27 Regional Grain Cooperatives, 1962-63



Net margins were \$1.1 million for the 11 associations, making a total for the 27 of more than \$15.4 million or 2.2 cents a bushel in 1962-63, compared to 2.5 cents in 1961-62 and 2.8 cents in 1960-61.

As a group, the regional grain cooperatives have grown rapidly, are in sound financial condition and operate efficiently. Through these organizations, farmers have increased their bargaining strength at the local, terminal, and national levels. Quality has been emphasized by paying premiums for approved varieties and protein content. Marketing margins have been reduced through the competition furnished by these organizations.

Management of these associations still face many important problems. Day-to-day price changes and crop conditions affect operations. Transportation, including type of equipment as well as the changing rate structure, is vitally important. Government programs and policies and technological changes in farming and in the market structure change and affect volume and operations.

Many costs have been rising and do not decline in proportion to volume decreases. This increases unit operating costs. Quality maintenance or improvement is being stressed more and more. New or additional services must be performed to meet member requirements.

The managers and directors of these regionals have demonstrated their ability to deal with problems during the years as evidenced by their growth. The experience gained should enable them to anticipate and meet future problems as they arise.

